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SUBJECT: UKRAINE: TYMOSHENKO PROMISES TO PAY GAS DEBT,
SUPPLY CUT-OFF LESS LIKELY

REF: MOSCOW 367

¶1. (SBU) Summary: Prime Minister Yulia Tymoshenko took Ukraine's gas dispute with Russia (ref A) public on February 11. She acknowledged that NaftoHaz owed gas intermediaries RosUkrEnergo (RUE) and UkrHazEnergo (UHE) \$1.07 billion for gas deliveries in October-December 2007, and said Ukraine would pay off the debt in a timely manner. She confirmed that NaftoHaz reps were in Moscow that same day for discussions with Gazprom, but did not say whether Ukraine had reached an understanding with Russia to prevent a cut-off of gas supplies, which Gazprom had threatened for February 12. She said that Ukraine would meet its obligations to transit gas to western Europe regardless of what actions Russia would take in the short term. Tymoshenko also indicated that Ukraine's current round of troubles with Russia goes deeper than simple payment arrears. RUE and UHE were trying to change the rules of the game for gas already delivered, she argued. Tymoshenko said Ukraine would not bow to the demands of the intermediaries, but was open to new negotiations on gas deliveries beginning in January 2008 if intermediary UHE is removed from the picture immediately. A supply cut-off is probably less likely in the short term as a result of Tymoshenko's willingness to pay off the gas debt. Her remarks may also signal that intermediary RUE is having trouble meeting its 2008 delivery commitment to Ukraine at prices agreed in late 2007. End summary.

Tymoshenko: Debt Exists, and It Will Be Paid

¶2. (SBU) In February 11 meetings with the media and with the diplomatic corps, Tymoshenko acknowledged that NaftoHaz owed \$1.07 billion to gas intermediaries RosUkrEnergo and UkrHazEnergo for gas delivered between October and December 2007. NaftoHaz had collected the sum from its Ukrainian customers, yet had failed to pass it on to its suppliers, she said. The GOU still did not know what happened to the money, she added. Nonetheless, the GOU was ready to pay the debts in full. (Note: She did not say how the GOU planned to come up with the money, but media reports quoted government sources as saying that the GOU would borrow the money from Deutsche Bank. End note.)

¶3. (SBU) Tymoshenko did not indicate when Ukraine would pay off the arrears, or whether the GOU had reached an understanding with Gazprom that would prevent the Russian gas company from cutting off supplies to Ukraine. She confirmed that NaftoHaz reps were in Moscow on February 11 for

discussions with Gazprom. Her open acknowledgment of the debt and the GOU's determination to settle it will probably make supply disruptions less likely in the short term, however. Late on February 11 the Ukrainian media reported that negotiations in Moscow would continue on February 12.

Intermediaries RUE and UHE at Heart of the Dispute

14. (SBU) Tymoshenko's statements indicated, however, that the dispute with the gas intermediaries goes much deeper than the issue of unpaid gas bills. In her February 11 meeting with the diplomatic corps, Tymoshenko claimed that RUE, in its yearly supply agreements, only announces what amount of gas will be available for sale to Ukraine, and at what price. During the course of the year NaftoHaz subsequently concludes agreements with the intermediary on a monthly basis. Apparently, these agreements are reached after the fact, i.e. subsequent to the actual delivery of the gas. Tymoshenko said that Ukraine was probably the only country in the world that had to conclude agreements on a monthly basis for the delivery of natural gas.

15. (SBU) Tymoshenko said NaftoHaz still had no contracts for the delivery of gas in the last three months of 2007. In the ongoing negotiations over this period, RUE and UHE were now demanding that NaftoHaz pay the 2008 price (\$179.5/tcm) for gas deliveries in November and December, rather than the \$130/tcm that had been anchored in the 2007 gas delivery agreement with RUE, Tymoshenko claimed. She did not say how the intermediaries were justifying the higher price, but insisted that Ukraine had made no provisions to pay the sum and would not do so under any circumstances.

16. (SBU) RUE was also claiming that an increased portion of
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the gas it supplied to Ukraine in January 2008 came from Russia, instead of central Asia. RUE was demanding that NaftoHaz pay \$314/tcm for this increased portion of Russian gas, Tymoshenko claimed. Tymoshenko disputed the RUE claim, citing customs figures to argue that RUE sold far more central Asian gas to Ukraine in January than was actually consumed in the country. Ukraine should only pay \$179.5/tcm for this gas as per the 2008 delivery agreement, she said, and in any case the GOU could not pay more since it had not budgeted the money.

17. (SBU) Tymoshenko indicated that, for deliveries beginning in January, the GOU was prepared to negotiate the delivery agreement with the Russian side, presumably Gazprom, but Ukraine would insist on removing intermediary UHE immediately. Parallel to the abolishment of UHE the GOU would propose beginning negotiations to gradually abolish RUE as well, replacing it with direct arrangements with Gazprom or its subsidiary Gazexport for the purchase of central Asian gas.

Comment

18. (SBU) It appears increasingly unlikely that Gazprom will actually cut off supplies on February 12, now that Tymoshenko and others in the GOU have openly acknowledged the arrears and promised to pay them back in a timely manner. The dispute surrounding the purported demands of the intermediaries may be more difficult to solve, however. If Tymoshenko is to be believed, the intermediaries may be having trouble meeting their commitment to sell gas to Ukraine in 2008 at the \$179.5/tcm agreed upon in late 2007. Post will report septel on the details of Tymoshenko's claims against the intermediaries. End comment.

Taylor